



**Before you read this QWBA**

This QWBA is one of a series covering the tax rules for short-stay accommodation hosts. Check [Overview – Short-stay accommodation items](#) to make sure it's the item that's relevant to your circumstances.

## QUESTION WE'VE BEEN ASKED

**QB 19/08**

**How do the standard income tax rules apply to a dwelling that I sometimes rent out as short-stay accommodation and sometimes use privately?**

*This "Question We've Been Asked" (QWBA) explains how the standard income tax rules apply to a dwelling you sometimes rent out as short-stay accommodation (eg, through Airbnb, Bookabach and Holiday Houses) and sometimes use privately.*

*Before you use this QWBA, you need to work out if the standard tax rules or the mixed-use asset rules apply to the dwelling. [QB 19/06: What income tax rules apply if I have a dwelling that I sometimes rent out as short-stay accommodation and sometimes use myself?](#) will help you work that out.*

### Key provision

Income Tax Act 2007 – s CC 1

### Key terms

**Guest** means a person provided with short-stay accommodation in return for payment.

**Short-stay accommodation** means accommodation provided for up to four consecutive weeks in a dwelling that is not the guest's ordinary residence. It doesn't include accommodation provided to residential tenants, boarders or care home residents, and it doesn't include student or emergency accommodation.

## Question

**How do the standard income tax rules apply to a dwelling that I sometimes rent out as short-stay accommodation and sometimes use privately?**

## Answer

**If the standard tax rules apply, rental income from the dwelling will generally be taxable, including "mates' rates" rental income. The only exception is minor contributions to expenses from family and friends.**

**Costs that relate solely to renting out the property are fully deductible (eg, advertising). Costs that relate solely to your private use of the dwelling are not deductible. Other costs are partly deductible – the deductible amount is based on the number of nights the dwelling is rented or available to be rented relative to the total number of nights in the year.**

**If you make a loss from renting out the dwelling, you may not be able to deduct all of your expenses that year – some of your deductions might be carried forward to future years.**

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## Explanation

1. If you have a dwelling that you sometimes rent out as short-stay accommodation, and also sometimes use yourself, you need to work out which income tax rules apply so you can meet your tax obligations. The dwelling could be a holiday home, or a separate dwelling on the same property you live on (eg, a sleepout or a cottage).
2. Depending on your circumstances, the dwelling will fall into either the **mixed-use asset rules** or the **standard tax rules**.
3. To work out which rules apply in your situation see [QB 19/06: What income tax rules apply if I have a dwelling that I sometimes rent out as short-stay accommodation and sometimes use myself?](#) You'll need to revisit which rules apply each year.
4. This QWBA will be relevant if you've determined that for a particular income year the dwelling is subject to the **standard rules**.
5. This QWBA doesn't apply if the dwelling is owned by a company.

### What is the main difference between the standard rules and the mixed-use asset rules?

6. The main difference between the standard rules and the mixed-use asset rules is how you calculate the proportion of expenses you may deduct. Under the standard rules, the proportion of expenses that's deductible is based on the **amount of time the asset is used for or available for income earning**.

### What do I do if the standard tax rules apply to the dwelling?

7. If you've determined that the standard rules apply to the dwelling for a particular income year (see [QB 19/06: What income tax rules apply if I have a dwelling that I sometimes rent out as short-stay accommodation and sometimes use myself?](#)), this QWBA will help you apply those rules. Remember, you need to look at whether the dwelling falls into the mixed-use asset rules or the standard rules **each income year** (which for most people is 1 April – 31 March).

### What's income and what isn't?

#### **Amounts received are generally income**

8. If the standard rules apply to the dwelling, the amounts you receive from paying guests will generally be income under s CC 1 of the Income Tax Act 2007. The activity doesn't need to be run as a business for the amounts you receive to be income.
9. You'll be able to deduct expenses related to the dwelling. We explain how to work out what proportion of expenses are deductible from [13].

#### **Minor contributions to expenses**

10. An exception to amounts you receive from guests being income is where family or friends use the dwelling and aren't charged rent, but make a minor contribution to your expenses (eg, they pay you \$20 towards power and heating). In that situation, the contribution isn't rental income, but you also can't claim any deductions for that period.

***Renting the dwelling at "mates' rates"***

11. If you rent the dwelling at less than full market rates (eg, to family or friends at "mates' rates"), the rent will be income. In this situation, Inland Revenue will accept a deduction for your expenses for that period up to the amount of rent received for the period.

**What can I claim deductions for?**

12. You'll be able to claim deductions for 100% of expenses that solely relate to your rental activity. Any expenses that solely relate to your private use of the dwelling are not deductible. But many of your expenses will relate to both your income-earning and private use of the dwelling – these "mixed expenses" are only partly deductible.
13. You'll also be able to claim deductions for the depreciation of the chattels in the dwelling that paying guests can use. But, as with your mixed expenses, you can only claim for part of the depreciation because the chattels are used when the dwelling is rented out to earn income and also when it's used privately.
14. The following paragraphs will help you work out what deductions you may claim, and will help you calculate what percentage of your mixed expenses and depreciation is tax deductible.

***Expenses that are fully deductible – expenses that relate solely to rental activity***

15. You may claim deductions for 100% of expenses that solely relate to your rental activity. This would include:
  - advertising costs, including any commission or fee you pay to an advertising platform or transaction facilitator (this doesn't include any service fee the guests pay the platform – just fees you pay);
  - supplies used solely by your paying guests;
  - cleaning costs for the rental periods;
  - any additional insurance premium you pay (over what you would otherwise pay) because you rent out the property; and
  - any additional rates you have to pay (over what the normal residential rates would be) because you rent out the property.
16. You may have some expenses that you can split between being related solely to your rental activity and being mixed rental and private expenses. For example, expenses that have a fixed component and a usage component (eg, power). If you can identify actual usage charges for a period where the dwelling was only rented out and not used privately at all, you don't have to apportion the usage component for that period – it is fully deductible. The fixed charge component still needs to be apportioned, as it's necessary to maintain a power connection, which is used both privately and by paying guests.

***Expenses that are non-deductible – expenses that relate solely to private use***

17. Any expenses that relate solely to private use of the dwelling are not deductible (this includes use by family or friends who aren't charged rent). For example, if you use the dwelling for a month over the summer and you can identify actual usage charges that are a component to some of your expenses (eg, power), you can't deduct any of the usage component for that period as it relates solely to your private use of the dwelling. Similarly, any consumables you use at the dwelling are not deductible.

**Expenses that are partly deductible – expenses that relate to both rental activity and private use**

18. You may only claim deductions for **part of** any expenses that relate to both your rental activity and the private use of the dwelling. These sorts of mixed expenses would include:
- power bills (but see [16] and [17]);
  - internet expenses;
  - interest on your home loan;
  - property insurance (or what the insurance premium would be if you have to pay more because you rent out the property);
  - repairs and maintenance; and
  - rates (or what the normal residential rates would be if you have to pay more because you rent out the property).
19. Where you rent out a dwelling that you also sometimes use, to work out what proportion of these mixed expenses you may claim, you need to take into account:
- the periods the property is rented out (including at “mates’ rates”) or available to be rented out; and
  - the periods the property is used privately (this includes use by family or friends who aren’t charged rent).
20. Generally, to work out the proportion of your expenses you may deduct, you multiply those expenses by:

$$\frac{\text{nights the dwelling is rented out or available to be rented out}}{\text{nights in the year}}$$

21. You’ll need to keep track of the number of nights you rent out the dwelling, and you’ll need to have evidence of when it was available to be rented out. This evidence needs to be more than a mere statement of its availability, sporadic or limited advertising, or advertising that isn’t likely to attract many customers. You need to have evidence of active and regular marketing of the space at market rates, and that it’s available at times and for periods that demonstrate it’s genuinely available to rent.
22. Nights the dwelling is used privately aren’t counted as nights it’s available to be rented out. This is the case even if the property remains advertised (eg, if you don’t mark it as being “unavailable” or “booked” in an online booking system). Private use includes when you use the dwelling, and also when family or friends use it if they aren’t charged rent (even if they make a minor contribution to your expenses, as noted at [10]).
23. If renters have access to the whole dwelling (ie, there are no parts they are not permitted to use), your apportionment is just based on the number of nights the dwelling is rented out or available to be rented out, as a proportion of the total nights in the year.

**Example 2**

*Nathan and Joel have a holiday house in Queenstown, that they and their extended family use for a total of 100 nights during the year. The house is rented out for 240 nights during the year, and is advertised and available to be rented out throughout the year except when the family want to use it. The holiday house isn't in the mixed-use asset rules, as it's not unused for 62 days or more during the year.*

*Nathan and Joel may deduct 100% of their expenses that relate solely to the rental activity. These expenses include the cost of advertising the house for rent, their host service fees, the additional rates they pay (over what the normal residential rates would be) because they rent the property out, and the additional insurance premium they pay (over what they'd otherwise pay) because they rent the property out.*

*The house is rented out or available to be rented out for 265 out of the 365 nights of the year, so Nathan and Joel calculate that they may deduct 72.60% of their mixed expenses:*

$$\frac{265}{365} \times 100 = 72.60\%$$

*These expenses include the interest on Nathan and Joel's home loan, utility bills, repairs and maintenance costs, the amount of their rates that equates to what the standard residential rates would be if the property wasn't in a higher rating category, and the amount of their insurance premium that equates to what their premium would be if the property wasn't rented out.*

24. If part of the house isn't available for use by the guest (eg, a locked room in which you store your personal possessions), you may not deduct the proportion of mixed expenses that relate to that space. You need to factor in the floor area calculations like this:

**Example 3**

*Nathan and Joel from Example 2 keep items they and their family use on holiday in one of the bedrooms in the house, which is locked, and can't be used by guests. The bedroom is 25m<sup>2</sup>, and the whole house is 200m<sup>2</sup>*

*Nathan and Joel calculate that they may deduct 63.53% of their mixed expenses:*

$$\frac{175}{200} \times \frac{265}{365} \times 100 = 63.53\%$$

**Depreciation of chattels**

25. As noted at [13], you'll also be able to claim deductions for the depreciation of the chattels in the dwelling that paying guests can use. Depreciation deductions reflect that chattels in the dwelling are subject to wear and tear, resulting in a reduction in their value while being used to earn income.
26. As with your mixed expenses, you may only claim for part of the depreciation because the chattels are used when the dwelling is rented out to earn income and also when it's used privately.
27. The approach to work out how much depreciation you may claim each year is similar to the approach for apportioning mixed expenses. But it does differ slightly, as there is a specific apportionment formula in the Income Tax Act 2007 for depreciation of assets partly used to earn income.

28. Before you can apply the formula, you need to work out the depreciation loss for the year for each asset.
29. For low value items (\$500 or less), the depreciation loss is the item's cost. If the item is part of a group of items you purchased at the same time from the same supplier, and the items would have the same depreciation rate, the \$500 threshold applies to the group of items. For example, if you bought \$2,000 worth of linen at one time, you would have to depreciate the linen using one of the methods mentioned at [30].
30. For other items, you work out the depreciation loss for the year using either the diminishing value method or the straight-line method. There's information about those methods on Inland Revenue's [website](#), and you can find the relevant depreciation rates using Inland Revenue's depreciation rate finder – available on Inland Revenue's [website](#).

**i** Whichever method you use, you can't pool assets to depreciate them as a single asset if they're partly used privately – so you won't be able to use the pooled approach for the chattels in the dwelling.

31. Once you know the depreciation losses for the year for the chattels in the dwelling that paying guests can use, you need to work out what proportion of those losses you may deduct. To do this, multiply those losses by:

$$\frac{\text{nights the dwelling is rented out or available to be rented out}}{\text{nights in the year the dwelling is used or available for any purpose}}$$

32. While it is the chattel depreciation that is being worked out, the chattels are only used or available for use when the dwelling is – which is why the dwelling rental and availability nights are used to calculate the allowable chattel depreciation loss.
33. The difference between this formula and the approach for mixed expenses is that you are identifying the number of nights the dwelling is rented out or available to be rented out as a proportion of all of the nights in the year it is available for any purpose, rather than as a proportion of all of the nights in the year. So, if the dwelling is not available for use by anyone for a period, those nights are not counted.

**Example 4**

Nicola has a holiday home in a popular tourist town. She and friends used it for a total of 80 nights during the year, and it was rented out for 230 nights. The house was uninhabitable for 52 days during the year, while Nicola had the house extended by building a loft bedroom and deck with lake views. The house was advertised and available to be rented out throughout the year, except when booked out for Nicola and her friends to use, and over the building period. The holiday home isn't in the mixed-use asset rules, as it's not unused for 62 days or more during the year.

Nicola calculates that she may deduct 63.84% of her mixed expenses (home loan interest, insurance, rates, power bills, internet, etc):

$$\frac{233}{365} \times 100 = 63.84\%$$

However, for depreciation the calculation is slightly different. Instead of dividing the rental/available for rental days by the number of days in the year, the total of those days is divided by the number of days the property is used or available for any purpose, which would exclude the 52 building days when it couldn't be used. Nicola calculates that she may deduct 74.44% of her depreciation losses for the chattels in the house:

$$\frac{233}{313} \times 100 = 74.44\%$$

**Losses and the proposed rental expenditure ring-fencing rules**

34. There are currently rules proposed that may mean that if you make a loss from renting out the dwelling (that is, your deductible expenses for the year exceeded the income), you might not be allowed to deduct all of your expenses that year – some might be carried forward to future income years. If these rules are enacted, there will be information about them on Inland Revenue's website.

**Who should declare the income?**

35. The income belongs to the owner of the land (including leasehold land) and they must return it to Inland Revenue. If there is more than one owner, the income needs to be split appropriately between them.
36. If the dwelling is owned in a trust, the rules about who has to declare the income are more complicated, and we recommend you see a tax advisor to help you with your affairs.
37. If you lease the property from a relative (other than a trust) and use it to earn income, you should ensure you're paying an adequate amount of rent for the property to the extent of the income-earning use. If you don't, the Commissioner can deem there to be adequate rent paid. This is to ensure that property can't be leased between relatives for low or nominal rent to shift income for a tax benefit (see s GC 5 of the Income Tax Act 2007).

**What records do I need to keep?**

38. Because the dwelling may or may not fall within the mixed-use asset rules (remember, you'll need to work out each year whether it does), you'll need to keep good records so you can apply the income tax rules correctly either way. This includes records of:
- the number of nights you rent out the dwelling at market value, and how much income you receive for this;



- the number of nights you rent out the dwelling at “mates’ rates”, and how much income you receive for this;
- the number of nights you, or people associated with you, used the dwelling;
- when the dwelling was available to be rented out (see [21] and [22]);
- any expenses you want to claim deductions for; and
- any ring-fenced expenditure you have in respect of the dwelling.

### Provisional tax

39. If the tax you have to pay at the end of the year is more than \$2,500, the next year you’ll have to pay provisional tax – which means that you pay tax instalments during the year. There is information about provisional tax on the Inland Revenue [website](#).

## References

### Subject references

bach  
holiday home  
income tax  
mixed-use asset  
short-stay accommodation

### Legislative references

Income Tax Act 2007 – ss CC 1 and GC 5

### Other references

[Overview – Short-stay accommodation items](#)  
(Inland Revenue)  
[QB 19/06: What income tax rules apply if I have a dwelling that I sometimes rent out as short-stay accommodation and sometimes use myself?](#) (Inland Revenue)  
[QB 19/07: How do the mixed-use asset income tax rules apply to a dwelling that I sometimes rent out as short-stay accommodation and sometimes use privately?](#) (Inland Revenue)